

**CHECKLIST OF MAJOR TAX REQUIREMENTS,
REPORTS, RETURNS, FORMS AND NOTICES
TO BE FILED IN CONNECTION WITH COMMENCEMENT
OF OPERATIONS IN PUERTO RICO
AND DURING THE REGULAR COURSE OF BUSINESS**

*René Avilés García, Esq.: raviles@ferraiuoli.com
Carlos Muñiz Cotté, Esq.: cmuniz@ferraiuoli.com*

*Pedro P. Notario Toll, Esq.: pnotario@ferraiuoli.com
Fernando J. Rovira, Esq.: frovira@ferraiuoli.com*

This checklist discusses the major tax requirements, reports, returns, forms and notices to be filed with the various government agencies by companies before the establishment of operations in Puerto Rico, during the regular course of their business operations in Puerto Rico, and during any period in which they maintain employees within Puerto Rico. This checklist is limited to legislation and guidance that has been approved or issued as of August 31, 2014.

The matters discussed in this checklist are limited to Puerto Rico (and certain Federal) tax items which will generally apply to a business that commences its operations in Puerto Rico. However, there can be instances where other requirements will be applicable, depending on the type of business or industry engaged in trade or business in Puerto Rico. To those effects, in the particular cases where additional requirements might be necessary, you are encouraged to seek professional tax advice with us.

CIRCULAR 230 STATEMENT

The Department of the Treasury and the Internal Revenue Service (“IRS”) have promulgated rules at CFR Part 10 (the so called “Circular 230 rules”) that govern practice before the IRS, including providing certain forms of written tax advice termed “Covered Opinions”. The Circular 230 rules require that Covered Opinions (a) adhere to certain standards of factual and legal due diligence, (b) be presented in a certain format, and (c) contain certain information. We have concluded that this advice does not constitute a Covered Opinion and we disclose to you that this letter is not intended or written by us to be used, and cannot be used, by you or any other person for the purpose of avoiding penalties.

I. Tax Forms to be Filed on or before Commencing Operations in Puerto Rico

A. Incorporation or Registration to do Business within Puerto Rico

The first step for a foreign business to establishing operations within Puerto Rico is the organization of a Corporation or a Limited Liability Corporation (“LLC”) under the laws of Puerto Rico. Alternatively, (i) a corporation organized under the laws of a state of the United States or a foreign country or an LLC organized under the laws of the United States may register to be authorized to conduct business within Puerto Rico as a foreign corporation; or an LLC organized under the laws of the United States or a foreign country

may naturalize as a Puerto Rico LLC and conduct business as an entity chartered by both its original jurisdiction and Puerto Rico.

In Puerto Rico, any natural or corporate person may organize a corporation or LLC. The entities are created by filing the Articles of Incorporation (corporations) or of organization (LLC’s) with the Puerto Rico State Department, where they become available for public inspection, and by paying an incorporation fee based on the authorized capital stock of the corporation. In most cases the articles may be electronically filed using the Department of State’s website at www.estado.gobierno.pr.

With regard to foreign corporations and LLCs organized under the laws of a state of the United States of America, before they can establish business operations within Puerto Rico, they must file with the Puerto Rico State Department a “Certificate of Authorization to do Business”. The Application must set forth its name, place and date of incorporation, physical address of its corporate domicile, address of its registered office and name of its resident agent in Puerto Rico, names and business address of its directors and officers, a statement of its assets and liabilities, a description of the business it proposes to carry on in Puerto Rico, and a statement that it is authorized to do business in the jurisdiction of its incorporation.

The Certificate of Authorization may be electronically filed and must include a Certificate of Existence issued by the Secretary of State of the jurisdiction under which laws the entity is organized, and an Internal Revenue Voucher for \$250.00.

With regard to LLCs organized under the laws of a foreign country, before they can establish business operations within Puerto Rico, they must file with the Puerto Rico State Department a “Certificate of Naturalization” and a “Certificate of Organization”. The Certificate of Naturalization may be electronically filed must include a Certificate of Existence issued by the Secretary of State of the jurisdiction under which laws the entity is organized, and an Internal Revenue Voucher for \$250.00, and the Certificate of Organization must include an Internal Revenue Voucher for \$250.00.

B. Federal Employer Identification Number (United States) (Form SS-4)

Companies must file Form SS-4PR, “Application for Employer Identification Number” (“EIN”), with:

**Internal Revenue Service Center
Attn. EIN International Operation
Cincinnati, OH 45999**

**EIN may also be applied for by phone:
267-941-1099**

**EIN may also be applied for by fax:
859-669-5987**

**EIN may also be applied for online at:
<https://sa.www4.irs.gov/modiein/individual/index.jsp>**

C. Employer Account Number (Puerto Rico) (Form SC 4809)

The Puerto Rico taxpayer account number will be the same as the federal EIN. Upon receipt of the EIN from the IRS, and prior to commencing operations, companies must inform the EIN to the Department of Treasury of Puerto Rico (“Treasury”) by filing Form SC 4809, “Information for Account Number”, at the following address:

**Department of the Treasury
PO Box 9022501
San Juan, PR 00902-2501**

This form must include copies of the following documents:

**Letter from the IRS assigning an EIN
Certificate of Incorporation**

D. Waiver Certificate for Corporations Rendering Services in Puerto Rico

Generally, payments for services rendered within Puerto Rico are subject to a 7% withholding at source. The amounts withheld may be claimed by the service provider as a credit on its annual Puerto Rico Income Tax Return. The 7% withholding is not an additional tax, but merely a prepayment of corporate income taxes.

Corporations that (1) have a Puerto Rico volume of business in excess of \$1,000,000; (2) are current in their tax responsibilities with the Government of Puerto Rico; and (3) elect to file audited financial statements with their income tax returns, may obtain a waiver certificate from the Puerto Rico Treasury that exempts their income from being subject to the 7% withholding at source.

If a company will provide services within Puerto Rico, and meets all of the above requirements, it should obtain a total waiver certificate from the 7% withholding tax with the Taxpayer's Assistance Division, at the 1st floor of the Puerto Rico Treasury Department Building in San Juan, Puerto Rico.

F. Municipal License Tax

Generally, the gross revenues of all companies operating within Puerto Rico are subject to a municipal license tax. Depending on the municipality, the license tax ranges from .3% to .5% of gross revenues for non-financial businesses, and may not exceed 1.5% of revenues for financial businesses.

To register for the Municipal License Tax, when companies establish operations in a Municipality, they must notify the Municipal Director of Finance within 30 days. The notification must include a copy of the certificate of incorporation or authorization to do business in Puerto Rico, a copy of the lease agreement, and a copy of the "Use Permit" for the facility to be used within the Municipality.

Upon receipt of the notice of commencement of operations, the Director of Finance will issue a provisional certificate or license free of tax for the semester corresponding to that in which such activity commenced. For the next semester, a business volume declaration, together with the corresponding tax must be filed with and paid to the municipality within the first 15 days of the semester. The business volume will be the one derived during the first semester of operations raised to an annual basis.

E. Merchant Sales Tax Registration

Generally, all sales in Puerto Rico are subject to a 7.0% sales tax that includes a 6.0% state sales tax, and a 1.0% municipal sales tax. To comply with the Puerto Rico sales tax provisions and be authorized to collect the sales tax from their customers, all merchants are required to register with Treasury (Form SC 2914), and with each municipality in which they will conduct operations.

New businesses must register with the Treasury 30 days prior to commencing operations. Once a company registers, it will receive, via mail, a withholding agent certificate (green certificate) which must be displayed visibly in the company's place of business.

If the company is engaged in a business that is exempted from the collection of Sales Taxes, it must still register. The exempted company will receive a certificate (red certificate) indicating that it is exempted from collecting the sales tax, which must be displayed visibly in the company's place of business.

G. LLC Classification Election for Federal Income Taxes

The default classification for Puerto Rico LLCs under the Federal Internal Revenue Code is to be taxed as an “Association taxable as a Corporation”. Puerto Rico LLCs that desire to be taxed as a flow through entity (either as a Partnership or as a Disregarded Entity) under the Federal Internal Revenue Code must file an election to that effect (the “Federal Classification Election”) with the United States Internal Revenue Service.

The Federal Classification Election must be filed using Form 8832 and may be provide for an effective date of up to 75 days prior to the actual filing date. The Federal Classification Election must be filed at the following address:

**Internal Revenue Service Center
Ogden, Utah 84201-0023**

H. LLC Classification Election/Notification for Puerto Rico Income Taxes

LLCs that for Federal Tax Purposes are taxed as an “Association taxable as a Corporation” may elect to be taxed as either a corporation or a partnership for purposes of the Puerto Rico Internal Revenue Code. These LLCs must file a classification election (the “PR Classification Election”) with the Puerto Rico Treasury Department.

LLCs that for Federal Tax Purposes are taxed as either “Partnerships” or “Disregarded Entities” will be taxed as partnerships for purposes of the Puerto Rico Internal Revenue Code unless they operate under a Tax Exemption Grant issued by the Government of Puerto Rico. These LLCs must file a notice of their Puerto Rico tax classification as a “partnership” (the “PR Classification Notice”) with the Puerto Rico Treasury Department.

The PR Classification Election or the PR Classification Notice (as applicable) must be filed using Form SC 6045 on or before the last day of the 3rd month after the earliest of its organization or commencement of business operations within Puerto Rico.

Form SC 6045 must be filed by messenger at the following address:

**Department of the Treasury
Internal Revenue Area
Office 620
Intendente Ramírez Building
10 Paseo Covadonga
San Juan, P.R.**

II. Statutory Filing Requirements of Companies Resulting from the Regular Course of Business after Commencing Operations in Puerto Rico

A. Puerto Rico Treasury Department - Income Taxes and Gross Receipts Tax

1. Corporate Income Tax Return (Form 480.2 or 480.3)

In Puerto Rico, corporations (including LLCs electing to be taxed as corporations) are subject to Income Taxes at graduated tax rates that range from 20% to 39% (the “Regular Tax”). Foreign Corporations authorized to do business in Puerto Rico may also be subject to a Branch Profits Tax of 10%. Corporations that qualify for Tax Exemption under the Puerto Rico Tax Incentives Laws and obtain a Tax Exemption Grant are taxed at a flat rate of 2% to 7%.

Dividend distributions are normally subject to a 10% withholding tax. Corporations that qualify for Tax Exemption under the Puerto Rico Tax Incentives Laws and obtain a Tax Exemption Grant may be exempt from the 10% withholding tax on dividend payments.

Corporations must also compute an Alternative Minimum Tax (“AMT”), to be paid to the extent that it exceeds the Regular Tax, which shall be equal to the higher of:

- a. 30% of their taxable income (as adjusted for purposes the AMT);

OR

- b. The sum of:

- i. 20% of all expenses paid or accrued to a related person that are not otherwise subject to Puerto Rico income taxes and/or that amount representing the transfer of costs or the allocation of expenses of a home office located outside of Puerto Rico to a branch if such item was not subject to income tax; plus
- ii. In the case of certain corporations, a percentage ranging from 0.5% to 2% of the total value of the purchases of personal property from a related person.

The Corporation Income Tax Return (Form 480.2 for regular corporations and Form 480.3 for corporations operating under a tax exemption act), must be filed on or before the 15th day of the 4th month following the close of the taxable year. An automatic 3 months extension to file the income tax return may be requested by filing Form AS2644 on or before the return’s due date.

gross income exceeding \$3,000,000 or that are members of a controlled group of corporations with a combined gross income exceeding \$3,000,000. However, as discussed above, businesses with a gross income in excess of \$1,000,000 and up to \$3,000,000 may elect to include the Audited Financial Statements with their income tax returns, in order to qualify for a Waiver Certificate that exempts their income from being subject to the 7% withholding at source.

The income tax returns must include audited financial statements prepared by a Certified Public Accountant licensed to practice in Puerto Rico (the “Audited Financial Statements”). This financial statement requirement only applies to corporations with a

2. Partnership Income Tax Returns (Form 480.10(S))

As discussed above, under the Puerto Rico Internal Revenue Code, partnerships (including LLCs electing to be taxed as partnerships) are pass-thru entities. Accordingly, they must file an informative Partnership Income Tax Return, and their income flows thru and is taxed to the partners. Corporate partners are subject to Income Taxes at graduated tax rates that range from 20% to 39%. Foreign corporate partners may also be subject to a Branch Profits Tax of 10%. Individual partners are subject to income taxes at graduated tax rates that range from 7% to 33%.

The informative Partnership Income Tax Return (Form 480.10(S)), must be filed on or before the 15th day of the 3rd month following the close of the taxable year. An automatic 3 months extension to file the income tax return may be requested by filing Form AS2644 on or before the return's due date.

The Partnership must also provide each of its partners with an informative return detailing all of the information required by the partner for purposes of completing its income tax return. This informative return (Form 480.6(S)) must be filed on or before the 15th day of the 3rd month following the close of the taxable year. An automatic 30 day extension to file the return may be requested by filing Form AS2644.1 on or before the return's due date.

The Partnership income tax return must include audited financial statements prepared by a Certified Public Accountant licensed to practice in Puerto Rico. This financial

statement requirement only applies to partnerships with a gross income exceeding \$3,000,000. However, as discussed above, partnerships with a gross income in excess of \$1,000,000 and up to \$3,000,000 may elect to include the Audited Financial Statements with their income tax returns, in order to qualify for a Waiver Certificate that exempts their income from being subject to the 7% withholding at source.

Foreign partners in Puerto Rico partnerships (including LLCs electing to be taxed as a Partnership) of non-Puerto Rico partnerships that are engaged in a Puerto Rico Trade or Business must also file a Puerto Rico income tax return. Those foreign partners required to file a Puerto Rico income may satisfy their Puerto Rico income tax filing requirement through the filing of a "composite return" in accordance to the provisions of Administrative Determination #12-07 issued by the Puerto Rico Treasury Department.

3. Estimated Tax Payments

Corporations (including LLCs electing to be taxed as corporations) must pay an estimated tax equal to the lower of (1) 90% of the prior year's liability or (2) 100% of the current year's liability. Payment of the corresponding tax is generally due in four equal installments on the 15th day of the 4th, 6th, 9th and 12th months of the taxable year. Estimated tax installments must be paid with a payment voucher, Form 480.E-1, "Estimated Tax Voucher", at a participating bank, Collector's Office, or at the Returns Processing Bureau. In the case of the first taxable year of operations, corporations must follow the table below:

IF THE REQUIREMENTS TO FILE ARE FIRST MET:	RETURN DUE ON OR BEFORE THE:	NUMBER OF INSTALLMENTS TO BE DEPOSITED AND PAID	ESTIMATED TAX TO BE DEPOSITED ON OR BEFORE THE 15 TH DAY OF THE			
			4 TH MONTH	6 TH MONTH	9 TH MONTH	12 TH MONTH
Before the 1 st day of the 4 th month of the taxable year	15 th day of 4 th month	4	25%	25%	25%	25%
After the last day of the 3 rd month and before the 1 st day of the 6 th month of the taxable year	15 th day of 6 th month	3	--	33-1/3%	33-1/3%	33-1/3%
After the last day of the 5 th month and before the 1 st day of the 9 th month of the taxable year	15 th day of 9 th month	2	--	--	50%	50%
After the last day of the 8 th month and before the 1 st day of the 12 th month of the taxable year	15 th day of 12 th month	1	--	--	--	100%

Partnerships (including LLCs electing to be taxed as partnerships) must pay an estimated tax equal to (1) 33% of any income that flows thru to individual partners and (2) 30% of any income that flows thru to corporate partners (the “Partnership Estimated Tax”). Payment of the corresponding tax is generally due in four equal installments on the 15th day of the 4th, 6th, 9th and 12th months of the taxable year. In the event that the Partnership Estimated Tax Exceeds the sum of the four installments, the unpaid amount must be paid, with the corresponding Partnership Income Tax Return or Extension Request, on or before the 15th day of the four month following the close of the partnership fiscal year.

4. Additional Gross Receipts Tax

Entities that are taxed as Partnerships and Corporations are also subject to an Additional Gross Receipts Tax (“GRT”) on gross income for taxable years commenced after December 31, 2013, as follows:

Gross Income	Rate
\$3,000,000 - \$100,000,000	.35%
\$100,000,001 - \$300,000,000	.50%
\$300,000,001 - \$600,000,000	.70%
\$600,000,001 - \$1,500,000,000	.80%
In excess of \$1,500,000,000	1%
Financial Businesses	1%

The GRT will be a deductible expense for purposes of determining net taxable income. The GRT must be paid in four equal installments on the 15th day of the 4th, 6th, 9th and 12th months of the taxable year using Form 480.9g.

B. Puerto Rico Treasury Department - 7.0% Sales Taxes

As discussed, business in Puerto Rico must collect a 7% tax on all of their taxable transactions. The 7% tax includes a 6% State Sales Tax, and a 1% Municipal Sales Tax.

All merchants that register for the Sales and Use Tax (“SUT”) are required to use the Puerto Rico Treasury Department’s Merchants Integrated Portal (“PICO” for its Spanish acronym) to electronically file a monthly return with regards to their introduction of goods into Puerto Rico, which is due on or before the 10th day of the month following their introduction of the property (“Import Return”) and a monthly SUT return on or before the 20th day of the month following the month the sales taxes were collected (e.g. all tax collections derived from January sales must be reported and paid no later than the 20th of February), and to electronically remit the SUT to the Puerto Rico Treasury Department. Subject to certain limitations, Merchant’s may be allowed to claim a credit on their SUT return for a portion or all of the taxes paid with regards to the Import Return.

All bill of lading documents related to shipments of property into Puerto Rico must be submitted electronically to the Puerto Rico Treasury Department, which must then authorize the release of the shipments to the recipient after payment of any SUT that may apply to the shipment. Some merchants are allowed to post a bond guaranteeing the payment of the SUT in exchange for the release of their shipments prior to the payment of the SUT.

To access PICO, the merchant must visit the Department of the Treasury’s website www.hacienda.gobierno.pr, and find the link to use the application. To register in PICO, the merchant must provide an email address and create a personal user account.

1. SUT rules provide the following exemptions for the payment or collection of SUT:

- Re-sellers Exemption - Available to (i) merchants that withdraw an average of at least 80% of their inventory (for the immediate previous 3 taxable years) for sales to other resellers and obtain a valid Reseller's Certificate; or (ii) to other merchants to which the Puerto Rico Treasury Department ("PRTD") may grant a valid Reseller Certificate at its discretion. Resellers are allowed an exemption from the 1% Municipal SUT but must pay the 6% SUT.
- Eligible Resellers - Available to those merchants that withdraw an average of at least 80% of their inventory (for the immediate previous 3 taxable years) for sales to persons that are exempt from the SUT (such as the government) and obtain a valid SUT Exemption Certificate ("Eligible Reseller Certificate"). Eligible Resellers are exempt from both the 6% SUT and the 1% Municipal SUT.
- Manufacturers - Purchase of raw materials and machinery and equipment to be used in connection with the manufacturing process are exempt from the payment of the SUT;

2. Sales and Use Tax Lottery

The Puerto Rico Treasury Department has implemented a self-auditing and monitoring system known as the "IVU Loto". Under the system, every merchant registered for sales and use tax purposes in Puerto Rico is required to install a government approved terminal at every point of sale.

In order to determine eligibility in the IVU Loto system, all Merchants must register at <https://portal.ivuloto.pr.gov>.

If eligible, the terminal must be connected to a government system that registers all of the merchant's sales and issues a lottery receipt/ticket for every sales transaction with a customer. Each receipt

printed in the terminal contains a series of random numbers which in essence constitute a chance to participate in a weekly lottery sponsored by the government.

The Treasury's objective is to assess the certainty of the amount of monthly sales reported by a merchant by promoting citizenship participation in the supervision of reported sales in the terminal.

Failure to provide said copy of the receipt/ticket can result in a fine of \$100 per infraction. Furthermore, failure to install the terminal can result in a penalty of up to \$20,000 for each day the merchant fails to install the terminal.

C. Municipal Finance Department - Municipal Sales Taxes (if applicable)

The filing requirements for the reporting and payment of Municipal Sales Taxes will depend on where the corporation's place of business is located. The municipal portion of the sales tax (1.0%) must be paid directly to the municipality using a "Monthly Sales Tax Return".

D. Puerto Rico Treasury Department Informative Returns

1. Withholding at Source on Payments for Services Rendered (Form 480.9A)

As discussed, payments for services performed within Puerto Rico are subject to a 7% withholding requirement, unless the service provider has obtained a Waiver Certificate. Waiver Certificates may be either Total (no withholding would apply) or Partial (withholding is reduced to 3%). The first \$1,500 paid per year to each vendor is exempt from this withholding requirement.

As a result, corporations establishing operations within Puerto Rico must request the waiver certificate from all of their service providers. If no waiver certificate is provided, the 7% withholding must be applied to the payment.

A corporation that during any month makes payments subject to this withholding requirement must file Form 480.9A, "Payment Voucher of Tax Withheld," at any Internal Revenue Collector's Office,

to pay the 7% tax. The payment voucher is due on or before the 10th day of the month following the date of the withholding.

2. Annual Informative Returns - Income Not Subject to Withholding (Form 480.6A)

On or before the last day of February of the following calendar year, corporations must file Form 480.6A, "Informative Return - Income Not Subject to Withholding", with Treasury's Return Processing Bureau, to report payments to individuals amounting to \$500 or more, made in the preceding calendar year for (a) fees, commissions and other compensations (other than salaries); (b) rents, premiums, annuities, royalties or other fixed or determinable income; (c) dividends (not for distributions in liquidations); (d) interest (other than tax exempt or paid on Individual Retirement Accounts); or (e) taxable payments and distributions from a qualified pension, profit sharing, stock bonus, or other qualified employee benefit pension plan other than lump-sum distributions (e.g., in service withdrawals, installments and/or annuities). On or before the last day of February, a copy must be furnished to the individuals to whom the payments or distributions were made.

Forms 480.6A are controlled by the Puerto Rico Treasury Department with a serial number assigned to each form. As a result, the necessary number of forms must be requested directly from the Puerto Rico Treasury Department. If more than 4 forms 480.6A must be prepared, the Puerto Rico Treasury Department requires that the forms be submitted electronically. Certain taxpayers may use software developed by the Puerto Rico Treasury Department to submit the forms free of charge.

3. Annual Informative Returns - Income Subject to Withholding on Services Rendered (Form 480.6B)

On or before the last day of February of the following calendar year, Corporations must file Form 480.6B, "Informative Return - Income Subject to Withholding", with Treasury's Return Processing Bureau, to report the amount and the tax withheld in the preceding calendar year on: (a) payments made for services rendered by individuals, corporations or partnerships; (b) payments made for judicial or extrajudicial indemnification; (c) payments of dividends and interest (other than for Individual Retirement Accounts); or (d) lump-sum distributions from a qualified plan. On or before the last day of February, a copy must be furnished to the individuals to whom the payments or distributions were made.

Forms 480.6B are controlled by the Puerto Rico Treasury Department with a serial number assigned to each form. As a result, the necessary number of forms must be requested directly from the Puerto Rico Treasury Department. If more than 4 forms 480.6B must be prepared, the Puerto Rico Treasury Department requires that the forms be submitted electronically. Certain taxpayers may use software developed by the Puerto Rico Treasury Department to submit the forms free of charge.

4. Annual Reconciliation Statement of the Withholding at Source on Payments for Services Rendered (Form 480.6B1)

Every payer or withholding agent who is required to deduct and withhold at source for the payments described in Form 480.6B must submit, on or before the last day of February of the following year, Form 480.6B.1, "Annual Reconciliation Statement of the Withholding at Source on Payments for Services Rendered", with Treasury's Returns Processing Bureau. Said Form will summarize amounts paid and taxes withheld and paid during the preceding calendar year.

5. Annual Informative Return-Income Subject to Withholding-Nonresidents (Form 480.6C)

In Puerto Rico payments of certain types of Puerto Rico source income made to nonresident individuals or fiduciaries, nonresident aliens, and foreign corporations or partnerships that are not

engaged in trade or business in Puerto Rico are subject to a withholding tax. The withholding tax rates vary depending on the type of income to be paid.

On or before April 15 of the following calendar year, Corporations must file Form 480.6C, "Informative Return-Income Subject to Withholding - Non Residents", with Treasury's Returns Processing Bureau to report the amount paid and the tax withheld at source in the preceding calendar year with respect to each nonresident individual or fiduciary, nonresident alien, foreign corporation or partnership, not engaged in trade or business in Puerto Rico for salaries, wages or compensations, dividends, royalties, interest, rents, pension plans distributions, and judicial or extrajudicial indemnifications.

Forms 480.6C are controlled by the Puerto Rico Treasury Department with a serial number assigned to each form. As a result, the necessary number of forms must be requested directly from the Puerto Rico Treasury Department.

6. Annual Informative Returns - Exempt Income and Exempt Income Subject to Alternate Basic Tax (Form 480.6D)

On or before the last day of February of the following calendar year, Corporations must file Form 480.6D, "Informative Return - Exempt Income and Exempt Income Subject to Alternate Basic Tax", with Treasury's Return Processing Bureau, to report the amount of exempt payments made during the previous calendar year. On or before the last day of February, a copy must be furnished to the individuals to whom the payments or distributions were made.

Forms 480.6D are controlled by the Puerto Rico Treasury Department with a serial number assigned to each form. As a result, the necessary number of forms must be requested directly from the Puerto Rico Treasury Department. If more than 4 forms 480.6D must be prepared, the Puerto Rico Treasury Department requires that the forms be submitted electronically. Certain taxpayers may use software developed by the Puerto Rico Treasury Department to submit the forms free of charge.

7. Summary of Annual Information Returns (Forms 480.5)

On or before February 28 (April 15 in the case of Form 480.6C) of the following calendar year, Corporations must file Form 480.5, "Summary of Annual Information Return," with Treasury's Returns Processing Bureau, together with copies of all the appropriate informative returns (Forms 480.6A, 480.6B, 480.6C, 480.6D, and 480.7) completed for the year, to summarize the amounts paid and taxes withheld, and to process the number of Forms 480.6A, 480.6B, 480.6C, 480.6D, and 480.7 filed for the preceding taxable year. One Form 480.5 must be filed for each type of informative return: Form 480.6A, 480.6B, 480.6C, 480.6D, or 480.7.

8. Deposit Slip of Income Taxes Withheld at Source (Form 480.31)

On or before the 15th day of each month, Corporations must file Treasury Form 480.31, "Deposit Slip on Nonresident's Income Withheld at Source", with the Returns Processing Bureau with respect to income taxes withheld from payments of fixed or determinable, annual or periodical Puerto Rico source income made to nonresidents, if the total amount withheld exceeds \$200.

For months that the amount of the tax is \$200 or less, the return and deposit are due by April 15 of the following calendar year.

9. Nonresidents Annual Return of Income Taxes Withheld at Source (Form 480.30)

On or before April 15 following the year in which payments were made and taxes withheld, Corporations must file Treasury Form 480.30, "Non-Residents Annual Return of Income Tax Withheld at Source", with the Returns Processing Bureau accompanied with payment of any tax withheld in the prior calendar year and not already deposited.

E. Municipal License Tax (“Patente”)

Corporations must file a Business Volume Declaration, with each Municipality where they operate their business. The return is due, on or before five (5) working days after April 15 of each year. A 5% discount is available if the entire municipal license tax is paid with the timely filing of the return. Otherwise, businesses may elect to pay 50% of the tax on or before July 10, and the remaining 50% on or before January 10 of the next year. Separate returns must be filed with the Director of Finance of each municipality in which the corporation conducts business.

If the total gross volume of business (gross income) exceeds \$3,000,000, the return must be accompanied by financial statements,

including a balance sheet, income statement, and cash-flow statement, as of the close of the fiscal year ending on the preceding calendar year, audited by a Certified Public Accountant licensed to practice in Puerto Rico. If the volume of business is less than \$3,000,000, audited financial statements are not required, and the return must include a copy of the Puerto Rico income tax return filed with the Puerto Rico Treasury Department which details its gross income and operating expenses, together with a statement to the effect that they are true and exact copies of what was filed with Treasury. The statement is to be made on a form designed and approved by the office of the Municipal Affairs Commissioner for such purposes. A return not meeting these requirements is considered as not filed.

F. Municipal Revenue Collection Center (Personal Property Taxes)

Generally, businesses in Puerto Rico are subject to a personal property tax on certain tangible property located within Puerto Rico. Depending on the Municipality, the tax rates range from 5.80% to 8.33%. A single return is used to pay the total tax to all of the municipalities.

The tax must be paid on or before May 15 of each year. To self-assess and pay the tax, corporations must file Form AS-29-1, “Personal Property Tax Return”, which must either be electronically filed or personally filed at any regional office of the Municipal Revenue Collection Center (“CRIM”).

If total gross volume of business (gross income) exceeds \$3,000,000, the return must include financial statements for the Puerto Rico operations audited by a Certified Public Accountant licensed to practice in Puerto Rico. A trial balance as of December 31 is also required, together with a report from a Certified Public Accountant. The return must include the name and address of the officers and directors of the corporation.

An automatic extension of no more than ninety (90) days is granted for corporations by filing Form AS-1, “Request for Automatic Extension of Time to File Personal Property Tax Return”, on or before May 15.

Electronic filing of the Personal Property Tax Return and Request for Automatic Extension of time may be made through CRIM’s website, www.crimpr.net. Electronic filing is mandatory for:

- Taxpayers with a volume of business of more than three million (\$3,000,000) dollars; and
- Preparers of Personal Property Tax Returns that prepare five (5) or more returns for the taxable year.

Payment of the tax must be made through the CRIM. The acceptable payment methods are: (1) Credit Card (Visa, Master Card, or American Express), (2) ATM of Banco Popular from Puerto Rico, and (3) Checking or Savings account from any bank.

Taxpayers that are subject to the payment of Personal Property Taxes are required to prepay such taxes in four equal installments that will be due on (i) August 15; (ii) November 15; (iii) February 15; and (iv) May 15 (the "Personal Property Tax Installments"). Taxpayers must compute their estimated tax obligation based on a reasonable estimate of the personal property that will be subject to tax on their personal property tax return.

G. Department of State (Corporate Annual Reports)

Every Puerto Rico corporation and every foreign corporation authorized to do business within Puerto Rico, must file annually, not later than April 15, a report signed and sworn by its President or Vice-President, and its Treasurer or Assistant Treasurer. This report is required to be filed electronically in Department of State's website¹, and must be accompanied by an annual fee of \$150.

The report must include the name and address of the resident agent, officers and directors (at the time of execution of the electronic annual report), and a Balance Sheet. A payment for \$150 must be made along with the electronic filing of the return. For all Foreign Corporations authorized to do business within Puerto Rico, and for Domestic Corporations with volumes of business in excess of \$3,000,000, the balance sheet must be audited by a CPA licensed in Puerto Rico. When filing the annual report electronically, the Audited Balance Sheet should be scanned and submitted together with the electronic filing of the report.

LLC's are not required to file the Corporate Annual Reports. In lieu of the annual reports, they are required to pay an annual fee of \$150 to the Puerto Rico State Department. The annual fee should be paid online and is to be accompanied with a statement indicating the name and address of the resident agent of the LLC in Puerto Rico.

A 60 day extension may be requested for complying with the filing of the Corporate Annual Reports. No extension is available for the payment of the LLC annual fee.

H. Mandatory Additional Disclosures with the Statutory Financial Statements

Taxpayers with a volume of business in excess of \$3,000,000 are required to include audited financial statements with their tax filings. For taxable years beginning after December 31, 2012, the audited financial statements must include certain supplemental information related to the underlying the audited financial statements. The PR Treasury Department has issued Administrative Determination 14-06 as a guide on the content and process to be followed in the presentation of the supplemental information.

The supplementary information should be filed not later that the last day of the month following the due date of the return, including extensions.

III. Payroll Filing Requirements of Companies Resulting from the Maintenance of Employees within Puerto Rico

A. U.S. Internal Revenue Service - Payroll Taxes

1. Employer's Deposit of Social Security and Medicare Taxes

Employers must electronically deposit by EFTPS the Social Security and Medicare tax withheld with the United States Treasury. The deposit schedule for a calendar year taxpayer is determined from the total social security taxes reported in a four-quarter "look back period," which begins July 1 and ends June 30.

If the employer reported \$50,000 or less of social security taxes during said look back period, the employer is a monthly schedule depositor and must deposit the taxes by the 15th day of the

¹ <http://www.estado.gobierno.pr/>

following month in which payments were made. If the employer reported more than \$50,000 of social security taxes during said look back period, it becomes a semiweekly schedule depositor and must deposit the taxes on payments made on Wednesday, Thursday and/or Friday by the following Wednesday; and on payments made on Saturday, Sunday, Monday and/or Tuesday by the following Friday (i.e., within the next three (3) banking days).

If the employer's quarterly tax liability is less than \$2,500, no deposits are required and it must pay the tax with the quarterly return on Form 941 PR. If the employer's tax liability is \$100,000 or more on any day during a deposit period,² it must deposit the tax by the next banking day, whether it is a monthly or semiweekly schedule depositor.

2. Employer's Quarterly Federal Tax Return (Form 941 PR)

Employers in Puerto Rico must file quarterly returns on Form 941 PR, "Employers Quarterly Federal Tax Return," if Social Security and Medicare taxes were withheld for the quarter, and must pay any undeposited income, Social Security, and Medicare taxes if total tax liability for the quarter was less than \$2,500. The returns are due by the last day of the calendar month following the close of each calendar quarter (i.e., by April 30, July 31, October 31, and January 31) and must be filed with:

With Payment:
U.S. Internal Revenue Service
P.O. Box 37941
Hartford, CT 06176-7941

Without Payment:
U.S. Internal Revenue Service
P.O. Box 409101
Ogden, UT 84409

If all taxes were deposited when due, the due date to file the return is extended 10 additional days.

3. Employer's Deposit Slip for Deposit of Unemployment Tax (Form 8109 or 8109-B)

If the accumulated federal unemployment tax ("FUTA Tax") is \$100 or less at the end of a quarter, the tax need not be deposited, but must be added to the tax for the next quarter. If the FUTA Tax at the end of any calendar quarter is over \$100, including any FUTA Tax carried forward from an earlier quarter, the employer must deposit the unemployment tax by EFTPS by the end of the next month following the close of the quarter.³

If the undeposited FUTA Tax for the 4th quarter plus any undeposited tax for an earlier quarter is equal to or less than \$100, the tax can be deposited with either Form 8109 or Form 8109-B, or paid with the annual return (Form 940) by January 31 of the following calendar year together with the Form 940 Payment Voucher". If the FUTA Tax liability for the 4th quarter is over \$100, the entire amount must be deposited by the due date of the annual return, Form 940, by January 31 of the following calendar year.

4. Employer's Annual Federal Unemployment Tax Return (Form 940 PR)

Employers in Puerto Rico must file Form 940 PR, "Employer's Annual Federal Unemployment Tax Return," by January 31 of the year following the calendar year in which the unemployment tax was accrued, summarizing the unemployment tax accrued during the preceding calendar year, with:

2. For monthly schedule depositors, the deposit period is a calendar month. The deposit period for semiweekly schedule depositors are Wednesday through Friday and Saturday through Tuesday.

3. If combined federal payroll taxes amount to \$200,000, must deposit by EFTPS.

With Payment:
U.S. Internal Revenue Service
P.O. Box 37941
Hartford, CT 06176-7941

Without Payment:
U.S. Internal Revenue Service
P.O. Box 409101
Ogden, UT 84201-0046

If all taxes were deposited when due, the due date is extended 10 additional days.

5. Withholding Statement (Form 499-R-2/W-2 PR)

The original of Form 499-R-2/W-2 PR, "Withholding Statement," prepared for each employee from whom Social Security tax ("FICA Tax") was withheld must be filed by the employer, with the Social Security Administration, together with Form W-3 PR, "Reconciliation Statement," by the last day of February of the year after the calendar year for which withholding was performed with:

**Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001**

6. Deposit Slip of Employer's Monthly Deposit of Income Tax Withheld (Form 499R-1)

Every corporation that maintains employees within Puerto Rico must file Form 499R-1, "Employer's Monthly Deposit of Income Tax Withheld", accompanied with deposit of income tax withheld on wages during the preceding month with any Collector's Office or any authorized bank.

The deposit schedule for a calendar year taxpayer is determined from the total withholding taxes reported in a four-quarter "look-back period", which begins July 1 and ends June 30.⁴ If the employer reported and withheld \$50,000 or less during said look-back period, the employer will be a monthly schedule depositor and must deposit the taxes by the 15th day of the following month in which the payments were made. If the employer reported and withheld more than \$50,000 during said look-back period, the employer will be a semi-weekly schedule depositor and must deposit the taxes or payments made on Wednesday, Thursday and/or Friday by the following Wednesday. If the taxes or payments were made on Saturday, Sunday, Monday and/or Tuesday, they must be deposited by the following Friday.

4. The look-back period for calendar year 2014 begins on July 1, 2012 and ends on June 30, 2013.

If the employer withheld less than \$500 during a quarter, no deposits are required and the tax must be paid with the quarterly return on form 499R-1B.

7. Employer's Quarterly Return (Forms 499R-1B and 499R-1C)

Employers in Puerto Rico must electronically file their quarterly returns at:

<https://planillatrimestralthatpatronal.hacienda.gobierno.pr/Account/Login.aspx>). The quarterly return (Form 499R-1B, "Employer's Quarterly Return of Income Tax Withheld") will include information related to the taxes withheld from salaries paid during the preceding calendar quarter, and must be filed by the last day of the calendar month following the close of each calendar quarter (that is, by April 30, July 31, October 31 and January 31) including payment of any undeposited income taxes withheld from wages. Any adjustments to the income tax withheld during a quarter must be included in Form 499R-1C, "Adjustment to Income Tax Withheld Worksheet".

8. Wage Withholding Statement (Form 499 R-2/W-2 PR)

On or before January 31, employers in Puerto Rico must prepare Forms 499-R-2/W-2PR, "Withholding Statement", for each employee from whom Puerto Rico income tax was withheld during the preceding calendar year, give a copy to each employee and file copy A with Treasury's Returns Processing

Bureau together with Form 499R-3 (mentioned below).

Forms 499 R-2 are controlled by the Puerto Rico Treasury Department with a serial number assigned to each form. As a result, the necessary number of forms must be requested directly from the Puerto Rico Treasury Department. If more than 4 forms 499 R-2 must be prepared, the Puerto Rico Treasury Department requires that the forms be submitted electronically. Certain taxpayers may use software developed by the Puerto Rico Treasury Department to submit the forms free of charge.

9. Reconciliation Statement (Form 499R-3)

On or before January 31, employers in Puerto Rico must file Form 499R-3, "Reconciliation Statement" with Treasury's Returns Processing Bureau (Employer's Division) summarizing wages paid and taxes withheld

and paid each month during the preceding calendar year. A \$500 penalty is imposed for each statement that is not filed within the prescribed time.

10. Chauffeur's Insurance

Employers in Puerto Rico are required to pay a tax of \$0.30 weekly for every employee who drives a motor vehicle in relation with their functions. The employee must also pay a weekly tax of \$0.50. This tax must be withheld by the employer. To register for the Chauffeur's insurance program, employers in Puerto Rico must file Form TSCH-7A (Registration Notice) with the Puerto Rico Labor Department, within 7 days of hiring a covered employee. In addition quarterly tax returns Form TSCH-1 must be filed with the corresponding tax, on or before the 15th day after the close of the quarter.

11. State Unemployment and Disability Insurance

Employers in Puerto Rico are required to pay a disability tax of .3% on the first \$9,000 paid in yearly wages to each employee. The employee must also pay a .3% tax on the first \$9,000 received in wages. The total tax per employee per year will not exceed \$54.00. The employer has the option of setting-up a private plan to cover the disability insurance benefits.

Employers in Puerto Rico are required to pay a state unemployment tax of up to 5.4% on the first \$7,000 paid in yearly wages to each employee. The employee is not required to pay any unemployment taxes in addition to the tax paid by the employer. The tax is allowed, under certain conditions, as a credit against the FUTA tax.

The State Unemployment and Disability Insurance taxes are paid to the Puerto Rico Department of Labor. The same forms are used to pay both taxes.

Employers in Puerto Rico must register with the Puerto Rico Labor Department, prior to hiring a covered employee. In addition quarterly tax returns Form PR-UI-10 must be filed with the corresponding tax, on or before the last day of the month following each calendar quarter.

12. Workmen's Accident Compensation Insurance

Employers in Puerto Rico must participate in a compulsory insurance program covering employees who suffer injuries due to a job related accident. The tax is computed based on a schedule of occupations or industrial classifications that is published by the State Insurance Fund on or before June 1 of each year.

The employer must pay the tax on the total payroll of its business operations in Puerto Rico, by each separate occupation or business classification published in the schedule. The tax is assessed and levied based on a fiscal year ending on June 30, but may be paid semi-annually.

New employers must immediately obtain Workmen's compensation coverage by filing form SIF 711 and paying the initial tax. After obtaining coverage, every employer must file with the State Insurance Fund, by July 20 of each year, a payroll statement showing the number of persons employed, the corresponding industry classifications, and the respective wages paid for the fiscal year ending on June 30.

FERRAIUOLI LLC

221 Ponce de León Ave., 5th Floor, San Juan, PR 00917 - T 787.766.7000 | F 787.766.7001 |

www.ferraiuoli.com